House Passes Tax Bill

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On May 22, 2025, the House of Representatives passed its proposed tax legislation. The tax legislation was initially released by the House Ways and Means Committee on May 12, 2025, which it calls "The One, Big, Beautiful Bill." In a marathon session beginning on May 13, 2025, the bill was approved by the House Ways and Means Committee. The bill will likely change as it passes through the legislative process. Nevertheless, the bill highlights important changes being considered as part of new tax law.

By way of background, many provisions of the current tax law under the Tax Cuts and Jobs Act of 2017 (TCJA) are set to expire on January 1, 2026. If those provisions expire without new tax legislation in its place, the law will revert to what was in effect prior to the passage of the TCJA. Accordingly, there has been much speculation about the future of the federal tax law. This bill is an indication of what we may see in a final bill. The bill seeks to make permanent many expiring provisions of the TCJA and addresses tax laws affecting both individuals and businesses.

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Individual income taxes

Maintaining lower income tax rates

The TCJA changed the income tax rates and brackets, generally lowering the tax rates from those in effect under prior law and reducing the highest tax bracket from 39.6% to 37%. The bill would make the current income tax rates, which range from 10% to 37%, permanent. Therefore, the highest marginal income tax rate would remain at 37%, as it has been since 2018.

Increasing the standard deduction

As a result of the TCJA, in 2018, the standard deduction nearly doubled, from $6,500 to $12,000 for unmarried individuals (other than surviving spouses or heads of households), from $13,000 to $24,000 for married couples filing jointly, and from $9,550 to $18,000 for heads of households. The increased standard deduction under the TCJA subsequently has been adjusted for inflation annually from 2019 through 2025. In 2025, the standard deduction is $15,000 for unmarried individuals (other than surviving spouses or heads of households), $30,000 for married couples filing jointly, and $22,500 for heads of households. Under the TCJA, the increased standard deduction expires after 2025, bringing the standard deduction back down to 2017 levels (adjusted for inflation).

Instead, the bill makes the TCJA's increased standard deduction amounts permanent and further increases the deduction on a temporary basis by $1,000 for unmarried individuals (other than surviving spouses or heads of households), $2,000 for married couples filing jointly, and $1,500 for heads of households. This temporary additional deduction applies in 2025 through 2028.

Additional deduction for certain individuals age 65 or older

Under current law, individuals who are age 65 or older (and those who are blind) are entitled to an extra deduction in addition to the regular standard deduction. The deduction is adjusted annually for inflation. For 2025, the additional deduction is $2,000 for unmarried individuals and those who file as heads of households. For married couples filing jointly, married individuals filing separately, and surviving spouses, the extra deduction amount is $1,600 per qualifying individual.

The bill temporarily increases the additional deduction to $4,000 for individuals age 65 or older with a modified adjusted gross income of less than $75,000 for unmarried individuals and heads of households or $150,000 for married couples filing jointly, married individuals filing separately, and surviving spouses. For taxpayers whose income exceeds the thresholds, the deduction will phase out. This additional deduction applies for tax years 2025 through 2028. The deduction is available regardless of whether the individual itemizes their deductions or takes the standard deduction. To qualify for the deduction, the individual and, if applicable, the individual's spouse, must have a social security number.

Repeal of personal exemptions

Before 2018, an individual could potentially deduct a personal exemption for themselves and dependents from their adjusted gross income in addition to the standard deduction. The TCJA temporarily eliminated the personal exemption. The bill permanently eliminates the personal exemption.

State and local income tax deduction
For federal income tax purposes, an individual may generally deduct any state and local income and property taxes paid by the individual. The TCJA limits that deduction to $10,000 (and $5,000 for married individuals filing separately), which often is referred to as the state and local tax (SALT) cap. The bill makes the SALT cap deduction permanent, with an increase of the cap. In the final version that passed in the House, the cap will increase to $40,000 ($20,000 for married individuals filing separately). The bill also limits the deduction for individuals with modified adjusted gross income in excess of $500,000 for unmarried individuals (including heads of households and surviving spouses) and married couples filing jointly, and $250,000 for married individuals filing separately. The cap is reduced by 30% over the threshold until it reaches $10,000 (or $5,000 for married individuals filing separately). Both the $40,000 cap and the income level thresholds will increase by 1% annually from 2026 through 2033.

Additionally, the bill also seeks to stop so-called SALT cap workarounds, which enables some individuals to avoid the limitation on deductibility with respect to certain income allocated to them through pass-through entities. The new cap, with the income limitations, as well as the new language prohibiting the so-called SALT cap workaround is effective in 2026 and thereafter.

Mortgage interest deduction

An individual can deduct mortgage interest on debt that is incurred when acquiring, constructing, or substantially improving their residence and otherwise qualifies as qualified residence interest. There are limits, however, on how much interest qualifies for the deduction. Before 2018, only the interest on the first $1 million of acquisition indebtedness

($500,000 in the case of married individuals filing separately) and only the interest on the first $100,000 of home equity indebtedness ($50,000 in the case of married individuals filing separately) was permitted as a deduction. The TCJA lowered the limitation relating to acquisition indebtedness so that only the interest on the first $750,000 of acquisition indebtedness ($375,000 in the case of married individuals filing separately), and it eliminated any interest deduction for home equity loans. The bill makes the TCJA provisions permanent.

Miscellaneous itemized deductions and itemized deduction limitation

For 2018 through 2025, the TCJA eliminated a group of deductions known as miscellaneous itemized deductions. An individual previously was able to deduct certain expenses, including personal investment advisory and management fees, tax preparation fees, and unreimbursed business expenses (travel, entertainment, home office expenses, and the like) to the extent they exceeded 2% of the individual's adjusted gross income. The bill permanently repeals the ability to deduct miscellaneous itemized deductions.

In addition, before 2018, high-income individuals were required to reduce otherwise permitted personal deductions (such as miscellaneous itemized deductions and the charitable deduction). This limitation often is referred to as the Pease limitation, after Congressman Donald Pease, an author of that tax law. The Pease limitation could reduce deductions by up to 80%. The TCJA temporarily eliminated this limitation, allowing individuals to fully deduct permitted deductions regardless of income. The new tax law makes the repeal of the Pease limitation permanent and replaces it with a new limitation on itemized deductions which would reduce the benefit for individuals at the highest income tax bracket. For example, an individual at the 37% bracket generally saves 37 cents for every one dollar of deduction. This new limitation generally caps the value of each dollar of itemized deductions at 35 cents and applies only to individuals in the highest income taxbracket. The limitation is effective in 2026 and thereafter.

Temporary deduction for tips

The bill creates a deduction for qualified tips that an individual receives. Qualified tips must be paid voluntarily, be determined by the payor, and must be received in an occupation that traditionally and customarily receives tips. The deduction is temporary and is allowed in 2025 through 2028. A work eligible social security number is required in order to claim the deduction. A highly compensated employee is not able to take the deduction. Subject to various rules, a highly compensated employee generally is an employee who owns 5% or more of the employer's outstanding stock or voting control if the employer is a corporation, or 5% or more of the employer's capital or profits interest if the employer isn't a corporation, or an employee who received $160,000 or more of compensation from the employer. The $160,000 limit adjusts annually for inflation.

Deduction for overtime pay

The bill includes a deduction for qualified overtime pay, defined generally as overtime pay required under federal labor laws that is in excess of the individual's regular pay rate. A work eligible social security number is required in order to claim the deduction. A highly compensated employee is not eligible for the deduction.

Alternative minimum tax

The alternative minimum tax (AMT) generally applies to high income individuals who have significant deductions or other tax exclusions that reduce their taxable income. It requires those individuals to compute their income tax liability without certain exclusions and deductions, but at a lower rate (generally 28%), and to pay the higher of the regular income tax or the AMT. There is an exemption from the AMT as well as a phase out of the exemption at certain income tax thresholds. For 2018 through 2025, the TCJA increased the AMT exemption and increased the income thresholds at which the exemption begins to phase out. The bill makes the AMT changes in the TCJA permanent.

Child tax credit

The TCJA doubled the child tax credit. Before 2018, the child tax credit was $1,000 per child under age 17. As a result of the TCJA's enactment, from 2018 through 2025, the child tax credit has been $2,000 per child under age 17. The TCJA also raised the income thresholds above which the credit phases out. Under the TCJA, the credit decreases by 5% of modified adjusted gross income over $400,000 for a married couple filing jointly and $200,000 for all other individuals. Under prior law, the credit began to phase out (at the same 5% rate) to the extent modified adjusted gross income exceeded $110,000 for a married couple filing jointly and $75,000 for all other individuals. The bill makes the TCJA changes permanent and also increases the child tax credit from $2,000 to $2,500 in 2025 through 2028. The bill requires that, in the case of a married individual, the individual must file jointly in order to take advantage of the credit, and each parent claiming the credit and each child for whom they are claiming the credit to have a social security number.

Phase out of clean energy credits
The bill accelerates the termination of certain tax credits available to individuals for the purchase of certain clean vehicles and for energy efficient home improvements. Under current law, most of the credits are set to expire December 31, 2032. The bill generally accelerates the expiration of the credits to December 31, 2025.

Gift and estate taxes
Each individual has a lifetime gift and estate tax exemption that they can use to transfer assets either during their lifetime or at their death without incurring any federal gift or estate taxes.[1] Before 2018, the exemption from gift and estate taxes was a base of $5 million adjusted for inflation annually from 2011. The TCJA temporarily increased the base gift and estate tax exemption to $10 million. For example, the 2025 lifetime exemption is $13.99 million per person, which generally enables a married couple to shelter $27.98 million from gift and estate taxes. This temporary increase is set to sunset (expire) after 2025. If it sunsets, the exemption will revert to the base of $5 million adjusted for inflation from 2011, making it in 2026 roughly one-half of what it is in 2025. The bill increases the exemption amount to $15 million starting in 2026, with an annual inflation adjustment beginning in 2027.

An additional tax, the generation-skipping transfer (GST) tax, applies to certain gifts and transfers from one generation to a recipient who is two or more generations (or, for unrelated individuals, a certain number of years) below the donor's generation. The exemption from the GST tax is the same as the exemption for gift and estate taxes and would thus increase accordingly.

Increased excise tax on certain private foundations

Under current law, all private foundations generally are exempt from income tax but are subject to an excise tax equal to 1.39% of the foundation's net investment income each year. The bill increases the excise tax for private foundations with assets in excess of $50 million. Private foundations with less than $50 million in assets will continue to be subject to the current 1.39% excise tax. Private foundations with assets of $50 million or more will be subject to a tiered excise tax rate on net investment income. For private foundations with $50 million in assets but less than $250 million, a 2.78% excise tax will apply. For private foundations with at least $250 million but less than $5 billion in assets, a 5% excise tax will apply. For private foundations with assets in excess of $5 billion in assets, a 10% excise tax will apply. The increased excise tax would apply to tax years following the year that the bill is enacted.

Excise tax on remittance transfers

The bill imposes a new 3.5% excise tax on remittance transfers (e.g., electronic money transfers) that originate in the United States to any other country. The tax would not apply to transfers sent by United States citizens or nationals sent via qualified remittance transfer providers (defined as transfer providers that enter into a written agreement with the Secretary of the Treasury verifying those senders are United States citizens or nationals). The bill provides a tax credit for any excise tax paid by taxpayers with a valid social security number.

Qualified business deduction

The TCJA created a new 20% pass-through entity deduction under Section199A of the Internal Revenue Code for qualified business income. The bill makes the deduction permanent and increases it to 23%. The deduction is available to certain owners of business entities that are not taxed at the company level, like a C corporation, but instead, which pass the income through to the business's owners, like partnerships, multi-member limited liability companies (LLCs) taxed as partnerships, and S corporations.[2] Income from pass through entities generally is reported on the owner's income tax return at the owner's income tax rate. The corporate income tax rate prior to the TCJA was 35%, lower than the then top income tax bracket of 39.6%. The TCJA also reduced the corporate income tax rate from 35% to 21%. The idea behind this new deduction was to level the playing field for businesses operating as pass through entities with C corporations that are now taxed a lower 21% tax rate. Note that the reduction in the corporate income tax rate to 21% was a permanent change in the TCJA.

[1] This assumes the individual is a United States citizen or, for gift and estate tax purposes, a United States resident. The bill doesn't change the estate tax exemption applicable to an individual who is neither a United States citizen nor, for gift and estate tax purposes, a United States resident.

[2] For more information on the Section 199A deduction, see *Qualified Business Income Tax Deduction* (a publication of the UBS Advanced Planning Group).

Special depreciation

Taxpayers who purchase property used in a trade or business generally are required to deduct the cost of that property over a period of time. However, in the case of certain qualified property (which generally includes most equipment and machinery) placed into service in 2025, a taxpayer may take an immediate deduction of 40% of the cost. The bill allows taxpayers to take a deduction of 100% of the cost of qualified property acquired on or after January 20, 2025, and placed in service before January 1, 2030.

The bill further provides for an elective 100% deduction equal to the adjusted basis of qualified production property for the tax year the property is placed into service. Qualified production property is generally defined as any non-residential property located in the United States or any of its possessions to be used for the manufacturing, production, or refining of tangible personal property. The construction of the qualified property must begin after January 19, 2025, and before January 1, 2029, and the property must be placed in service before January 1, 2033.

Qualified opportunity zone investments

Under current law, there are certain tax benefits for investments in a qualified opportunity zone (QOZ), which generally include low income and distressed communities identified by the State Governor and certified by the US Treasury as a QOZ. The investment can be made directly, or more commonly, through a qualified opportunity fund (QOF), which is an entity organized for the purpose of investing in QOZ property. The tax benefits include a deferral of income tax on capital gains that are realized and reinvested into the QOZ or QOF. Under current law, the deferral of capital gains generally ends on the earlier of: (a) an inclusion event (e.g., a sale or exchange of the QOZ); or (b) December 31, 2026.

The bill opens another round of tax benefits for QOZ or QOF investments made between January 1, 2027, and December 31, 2033. The bill narrows the definition of a QOZ to target lower income communities and provides that at least 33% of designated QOZs must be comprised entirely of a rural area (as defined under existing law under the Consolidated Farm and Rural Development Act (P.L. 87-128)). The bill also creates a new designation for "rural qualified opportunity funds" (RQOFs). Investments made in a QOF receive a single step-up in basis of 10% when held for at least five years. In rural areas, investments must be made into a RQOF and will receive a 30% step-up in basis when held for at least five years. In addition, individuals may invest up to $10,000 of ordinary income (as opposed to capital gains) in a QOF or RQOF, and if the investment is held for at least 10 years, the gains on that investment will be excluded.

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